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SUBJECT: OLMERT TELLS A/S BURNS TO TIE PALESTINIANS TO
ISRAEL WITH DISENGAGEMENT ASSISTANCE

Classified By: Ambassador Daniel C. Kurtzer for reasons 1.4(b) and (d).

11. (C) Summary: Deputy PM Ehud Olmert urged NEA A/S Burns and the USG to use creative means of engagement such as developing QIZs when assisting the Palestinians so as to tie Palestinian economic fortunes to continued good relations with Israel. Despite advocating such ties, Olmert rejected any plan to again allow Palestinians laborers into Israel and said that the disengagement plan must remain unilateral -- despite positive developments on security under Abu Mazen -- to protect the timetable for its implementation. Olmert predicted that the GOI would hold elections in November 2005 and that Labor under Shimon Peres would become increasingly eager to demonstrate its independence from the Sharon government in an effort to woo voters. On Syria, Olmert thought that Israel should have explored the seriousness of Bashar al-Assad's intent to renew negotiations with Israel. End Summary.

12. (U) Deputy PM Ehud Olmert met with Assistant Secretary William Burns and the Ambassador January 27. NSC Director Robert Danin and poloffs joined the meeting, as did several members of Olmert's staff.

QIZs a Good Deal

13. (C) Olmert opened the meeting by noting that only now are the Egyptians realizing that economic benefits will come their way as a result of the Egyptian-Israeli QIZ agreement signed earlier this month in Cairo. A/S Burns said that he had found President Mubarak upbeat during their January 26 meeting and had urged Mubarak to seize this time of opportunity with the Palestinians. The U.S. will keep encouraging the GOE to take an active approach, including deploying Egyptian troops along the Rafah border.

Help Tie Us Together

14. (C) Olmert urged the USG to assist the PA in such a way as to encourage connectivity between Israel and the Palestinians, leaving "no route the Palestinians can take that does not reflect on their relations with Israel." Stressing that he was not referring to, for example, renewal of access for Palestinian workers to the Israeli labor market, Olmert focused instead on developing mechanisms similar to the QIZ with Egypt that directly tied USD one billion in Egyptian exports to Israel -- a fact that had a positive influence on Egyptian behavior, in Olmert's view, including effecting a change in Egyptian public opinion. A/S Burns agreed that creative approaches are important, and the Ambassador added that there are a number of issues under GOI control that will have a profound impact on Palestinians society and economic life: such as extension of the customs envelope and facilitation of the movement of goods.

Building Momentum "Step by Step"

15. (C) Olmert said that the most important thing now vis-a-vis the Palestinians is "not to make mistakes." Calling the January 9 presidential elections a success regardless of what might happen in the future, Olmert added that it is clear that Abu Mazen is capable of doing things on the ground. What is less clear is exactly how much that might actually be, adding that Abu Mazen had not yet made a full assault on terrorism. Olmert stressed, however, that Abu Mazen had to begin somewhere and that it was also important to create an environment that encourages Palestinian action. Taking note of the January 26 meeting between PM advisor Dov Weissglas and PA negotiator Sa'eb Erekat, Olmert said "we must build a sense of (positive) momentum, step by step."

No Changes to Disengagement Timetable

16. (C) While noting that it now appears possible to coordinate security with the Palestinians, Olmert said that

he had nevertheless recommended that the GOI make no changes to its disengagement time frame or criteria. Coordination would remove the unilateral element from the plan and allow other issues to influence the timetable, he said. The GOI must ensure that adequate time is available for the settlers to "prepare themselves" for the evacuation, as the government hopes to avoid legal challenges if possible. The actual evacuation itself should be carried out in "two to three weeks," likely in July, rather than the 12 weeks being discussed, according to Olmert. Although he did not dismiss it altogether, Olmert predicted that the threat of civil strife is smaller in scope than is feared. A "decisive and rapid move" would contribute to a quieter-than-expected evacuation. A/S Burns agreed that it is important to create an environment where the GOI can again engage with the Palestinians. Care must be taken to prepare each step.

17. (C) Momentum is building again in Israel for a referendum on disengagement, Olmert said, adding that Foreign Minister Shalom is a likely advocate of such a position. Oddly enough, Olmert continued, disengagement is the only issue on which the PM has a stable majority. In response to A/S Burns question, Olmert said that the law for settler compensation would be passed in "two to three weeks." Responding to the Ambassador's question as to when Gaza will be declared a closed military zone, Olmert said that it must be done in a "reasonable" manner, close to the time of the actual withdrawal itself. Life for the residents is ongoing up until the time they actually leave, Olmert said, and they will need supplies and contact with the outside world.

Present-Day Progress Does Not a Permanent Settlement Make

18. (C) Olmert said there was a good chance that the PA under Abu Mazen will be capable of holding back the terror for "a period of time," will hold reasonable elections for the Legislative Council in July, and will improve their performance on financial reform issues. Olmert strongly cautioned, however, against counting this sort of progress as paving the way to talks on a permanent settlement in the near future. Just because Abu Mazen is savvier than Arafat, Olmert warned, does not mean that his position on the core issues of the 1967 borders and refugee return is any different. Olmert predicted that the PA and the GOI will likely "get stuck" on these issues despite, he said, "(Shimon) Peres and (Sylvan) Shalom thinking they can convince the Palestinians otherwise." Olmert advised the U.S. not to be too ambitious and get drawn into a process not yet ripe for resolution -- and perhaps will not be "in our lifetime." Olmert speculated that the best that might be achieved now are some steps to improve the Palestinian economy, until attitudes and circumstances change enough "in a few years" for the sides to begin talking seriously again.

GOI Politics Still an Issue

19. (C) Olmert predicted that the GOI will call elections in November 2005, adding that holding elections would likely postpone further withdrawals or actions in the peace process for "a few months or so." Labor is also very cognizant of the fact they must build an independent political position and engage the GOI in serious debate on policy prior to any elections if Labor is to prevail in the elections, but cannot do so effectively as long as they are working with the government. "Just wait," Olmert said, "until Peres starts meeting with Abu Ala'a and the accusations of who is saying what to whom start flying."

Missed Opportunity With Syria

10. (C) Olmert asserted that the GOI made a mistake by not sending a secret emissary to Damascus to determine the seriousness of Bashar al-Assad's intent to renew negotiations with Israel. Admitting that Israel was not ready to conduct negotiations on both the Palestinians and the Syrian track simultaneously, Olmert also said that the lack of U.S. enthusiasm for the idea contributed to the GOI holding back. A/S Burns said that even the notion of Syrian-Israeli negotiations could prove useful to sow doubt between Syria and Iran. Even if al-Assad's overture was less than genuine, calling Syria's bluff might help push Syria to use its influence to rein in Hizballah as a measure of good faith. Olmert also mused that some effort towards working on the Syria track could pay dividends in Syria's relations with Turkey, by demonstrating to the Turks that there are positive regional developments.

11. (U) A/S Burns has cleared this cable.

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